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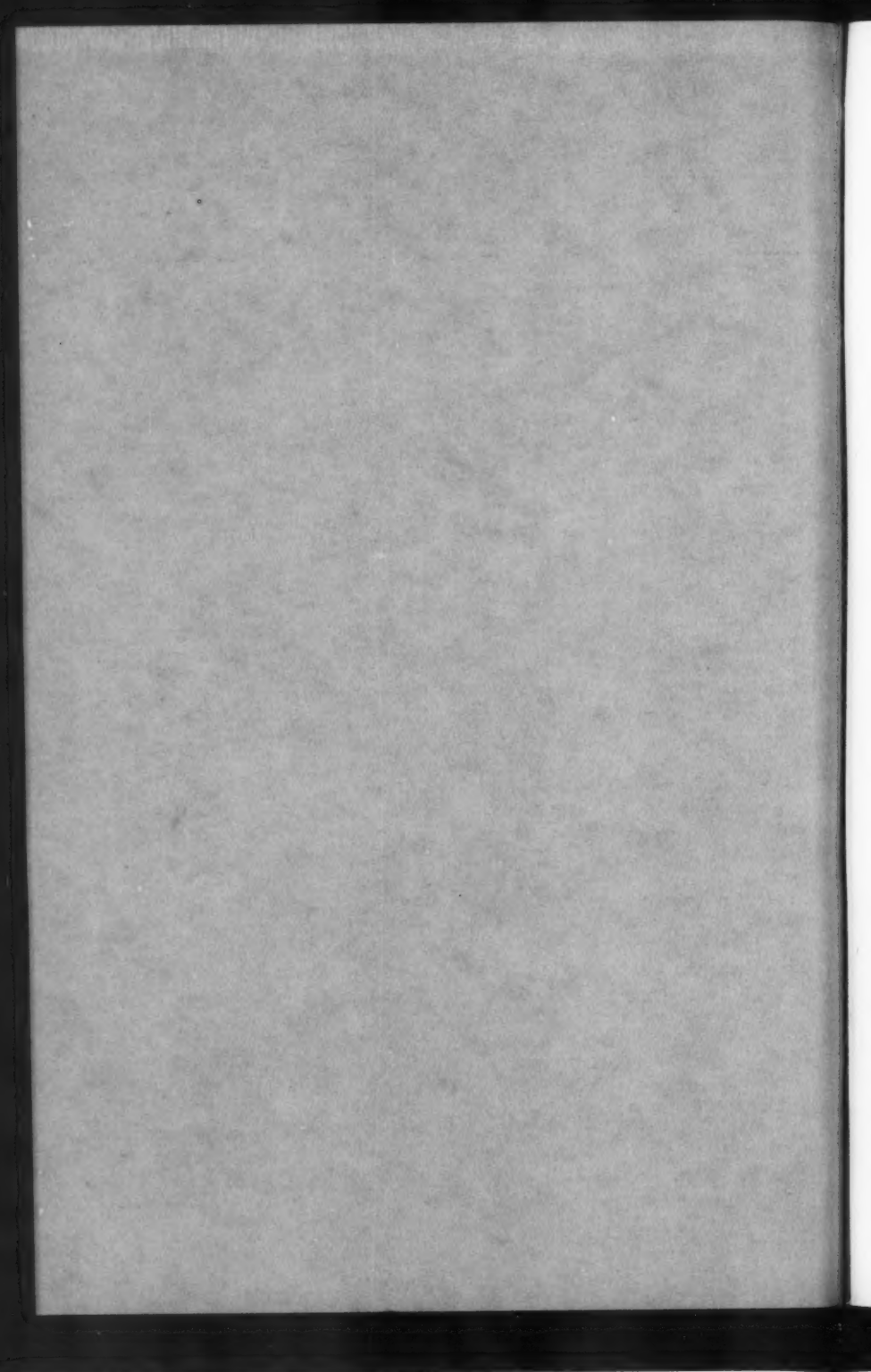
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## Regulation T Under the Securities Exchange Act

By LESTER E. NORRIS

(*New York Office*)

Regulation T, which became effective on October 1, 1934, was issued by the Federal Reserve Board pursuant to Sections 7 and 8(a) of the Securities Exchange Act of 1934. Its purpose is to prevent the excessive use of credit for the purchasing or carrying of securities and applies to the extension and maintenance of credit by members of national securities exchanges and by brokers and dealers transacting a business in securities through the medium of such members.

Because of the late issuance of Regulation T, and in order that persons affected thereby might have additional time after October 1, 1934, to familiarize themselves with the regulation, the Securities and Exchange Commission exempted until midnight of October 14, 1934, from the operations of Sections 7(a), 7(c), 7(d), and 8(a) of the Securities Exchange Act of 1934 and all regulations promulgated thereunder, all securities, whether registered or not, except securities as to which the Commission has refused to grant or has denied registration.

Under the regulation, specific margin is required in connection with the initial extension of credit to a customer on any registered security (other than an exempted security) but there is no requirement to maintain such margin after the initial extension of credit. However, restrictions are imposed on

the operations in a customer's account, should his margin fall below the requirement prescribed for initial extension of credit.

No restrictions are placed on loans for industrial, agricultural or commercial purposes, most of the regulation being for the purpose of preventing the circumvention of margin requirements.

The Federal Reserve Board also has the authority to prescribe regulations, including margin requirements, applicable to loans made by banks for the purpose of purchasing or carrying securities and, in due time, such regulations will be issued. Such further regulations as the Federal Reserve Board deems necessary or appropriate to carry out the provisions of Sections 7 and 8(a) of the Securities Exchange Act of 1934 will be issued from time to time.

The following excerpts and comments are confined to those features of Regulation T which pertain to the rules prescribed for margin requirements, extension and maintenance of credit, etc., pursuant to Section 7 of the Securities Exchange Act of 1934. Limited space precludes dealing with Section 8(a) at this time. It may be noted, however, that Section 8(a) of the Securities Exchange Act of 1934 deals with the restrictions on borrowings by members, brokers and dealers.

### Margin Requirements

The general rule for margin requirements as prescribed by Section 3(a) of Regulation T is quoted below:

"No creditor shall make any initial extension of credit to any customer on any registered security (other than an exempted security) for the purpose of purchasing or carrying any security in an amount which causes the total credit extended on such registered security to exceed the maximum loan value of such registered security. Except as specifically provided elsewhere in this section, the maximum loan value of any registered security (other than an exempted security) shall be whichever is the higher of:

- (1) 55 per cent. of the current market value of the security; or
- (2) 100 per cent. of the lowest market value of the security computed at the lowest market price therefor during the period of 36 calendar months immediately prior to the first day of the current month, but not more than 75 per cent. of the current market value: Provided, That until July 1, 1936, for the purpose of this regulation, the lowest price at which a security has sold on or after July 1, 1933, but prior to the first day of the current month, shall be considered as the lowest market price of such security during the preceding 36 calendar months; and Provided, That the lowest market price which could be used under the provisions of this regulation during any calendar month may be used during the first 7 calendar days of the succeeding calendar month."

It is to be noted that the above does not mention margin on short sales or on transactions in unissued securities and commodity futures. Later in this article under the caption "Adjusted Debit Balance" it will be noted that the margin customarily required by the individual brokers is permitted on such transactions.

Let us assume that a customer desires to purchase stock selling at \$100 per share, the low price for the stock since July 1, 1933, being \$50 per share. As the 55 per cent. loan value is higher than the low price of the stock, the broker is permitted to loan \$55 toward the purchase and the customer is required to supply \$45 per share margin. If the low price of the stock had been \$80 per share, the loan value would be limited to \$75 per share inasmuch as the loan value may not exceed 75 per cent. of the current market price. If the lowest price had been \$60 per share, the broker could then loan \$60 per share as the lowest price is greater than 55 per cent. but less than 75 per cent. of the current market price.

A number of tables and devices have been published and distributed from which (in conjunction with the necessary list of low prices) the loan values and margin requirements per share may be quickly ascertained. If such tables or devices are not available the following simple method may be used to determine the loan value or margin required on any particular stock:

- Divide the current market price of a security by the lowest recorded figure at which it has sold since July 1, 1933. If the resultant quotient is 1.33 or less, the margin required will be 25 per cent. of the present price and the maximum loan value 75 per cent. thereof. If the quotient is more than 1.33 but less than 1.82, the margin requirement will be the difference between the low recorded price and the present price and the maximum loan value will be the equivalent of the low recorded price. If the quotient is greater than 1.82, the margin required will be 45 per cent. of the present price and the maximum loan value 55 per cent. thereof.

The maximum loan value of an exempted security shall not be regarded as

more than the current market value of such security, but a creditor is not prohibited from requiring margin on, or assigning lower loan values to, exempted securities.

No credit may be extended on unregistered, nonexempt securities, but the creditor may accept such security as collateral for his own protection.

The rules of the New York Stock Exchange require that accounts having debit balances of \$5,000 and over shall have margin or equity amounting to at least 30 per cent. of such debit balances. Accounts with debit balances under \$5,000 are required to have margin or equity amounting to at least 50 per cent. of such debit balances.

On certain transactions, as for example, securities selling at less than \$10 per share or securities having wide market fluctuations, the brokers may require greater margin than that prescribed by the New York Stock Exchange.

Inquiries at a number of brokerage houses in New York elicited the information that they have not yet adopted any definite policy for margining accounts but it was indicated that they will require the highest margin determined from the following three methods of computation:

- (1) In accordance with Regulation T.
- (2) In accordance with the requirements of the New York Stock Exchange, as previously outlined herein.
- (3) In accordance with the individual requirements of the creditor.

In addition to credit which may be extended to customers, as outlined in Section 3(a), creditors may extend credit to others as set forth under the following three headings.

*Other Members, Brokers and Dealers:* In a special account, separately recorded, credit may be extended on

registered securities in an amount not greater than the maximum loan value of such securities, which shall be (except in the case of exempted securities) 80 per cent. of the market value of such securities, if such other member, broker or dealer is subject to the provisions of the regulation or has places of business only in foreign countries or if such credit is extended or maintained solely for the purpose of enabling such member, broker or dealer to carry accounts for his customers other than his partners. Any credit extended or maintained by such creditor to or for such other member, broker or dealer for the purpose of purchasing or carrying securities for his account or for the account of his firm or any of his partners shall not be included in such special account and shall be subject to the other provisions of Section 3.

*Distributors, Syndicates, Etc.:* In a special account, separately recorded, a creditor may extend credit on any registered security in an amount not greater than the maximum loan value thereof, which shall be (except on exempt securities) 80 per cent. of the current market value of such securities (1) to any dealer for the purpose of financing the distribution of an issue of securities at wholesale or retail, or (2) to any group, joint account or syndicate, for the purpose of underwriting or distributing an issue of securities.

*Arbitrage Accounts:* If arbitrage transactions are recorded in a separate account (special) and are not used to evade or circumvent the provisions of this regulation, any bona fide arbitrage transactions in securities and any credit extended or maintained to or for a customer for the purpose of financing such transactions shall be exempt from the other provisions of this regulation

provided: That the customer shall maintain a margin equal to two per cent. of any net debit balance in such account, unless the account contains no securities except exempted securities.

Nothing in the regulation prevents an exchange from adopting and enforcing any rule or regulation requiring its members to secure or maintain higher margins or otherwise restricting the amount of credit which may be extended by such members. The regulation does not restrict the right of creditors to require additional security for the maintenance of credit or, if considered necessary, to dispose of any collateral for any loan or credit extended by him.

In respect to their trading accounts, partners of member firms are required to carry the same amount of margin as is required from any customer.

*Current Market Value* is defined as being either the closing sale or closing bid price of a security on the preceding business day or the price at which the last sale was recorded, if such sale occurred during the current or preceding calendar month, as shown by any regularly published reporting or quotation service used by a creditor. If no such prices are available, any reasonable estimate of the price of such security is permissible.

Bid prices shall not be deemed to be current market prices of securities sold short. While no specific mention is made of asked prices in connection with securities carried short in an account it is reasonable to assume that, if, for example, the last recorded sale price was \$30 per share, a month prior to the date of calculation, and the present quoted price was \$38 bid, \$40 asked, the broker would use the \$40 asked price as the basis of his calculation,

for his own protection and in accordance with his former practice.

*Lowest Market Price* is indicated as being the lowest price at which a registered security has sold on national securities exchanges on which it has been registered: Provided, That if such security is a stock upon which there has been any stock dividend amounting to more than 10 per cent. in any one calendar year or any reduction or increase in the number of shares by calling in the outstanding shares and issuing in substitution therefor a smaller or larger number of shares, any price established before such dividend or change in number of shares shall be adjusted therefor.

*Adjusted Debit Balance:* Section 3(f) of Regulation T, provides that: "The adjusted debit balance of an account shall be calculated by taking the sum of the following items:

- (1) The net debit balance (if any) of the account;
- (2) Any amount to be paid for securities (other than unissued securities) bought for the account of the customer but not yet debited to his account;
- (3) The current market value of any securities sold short in the account (other than unissued securities) plus the margin customarily required by the creditor on such short commitments;
- (4) The amount of any margin customarily required by the creditor on every future commitment in unissued securities in commodities, or in foreign exchange and/or in connection with the creditor's indorsement or guaranty of any put, call or other option, plus any unrealized loss on each such commitment and/or minus any unrealized gain on each such commitment not exceeding the margin thereon; and
- (5) In the case of a guarantor's account, the aggregate of the amounts required to make each account guaranteed by such guarantor an unrestricted account: Provided, That in the case of no such guaranteed account shall the



amount exceed that to which the guarantee is limited; and deducting therefrom the sum of the following items:

- (6) The net credit balance, if any, of the account;
- (7) Any amount to be received for securities (other than unissued securities) sold for account of the customer but for which payment has not yet been credited to his account; and
- (8) Any amount needed but not yet received by the creditor to provide any margin required by this regulation: Provided, That (a) a demand for such margin shall have been made in or confirmed by, a letter or telegram which the creditor shall have sent to the customer at his last known address and (b) the time within which the creditor is required by this regulation to obtain such margin has not expired."

If a customer has more than one account (other than special accounts) with a creditor, his adjusted debit balance and the maximum loan value of the securities in his account shall be calculated, for the purpose of the regulation, on the basis of his combined account. The adjusted debit balance in a special account gives consideration only to the items involved in that particular account.

### **Extension and Maintenance of Credit**

*General Rule:* A creditor may permit credit to be maintained in accordance with the provisions of this section, regardless of reductions in the customer's equity resulting from changes in market prices and/or from charges to the account of the customer for interest charges, commissions, etc., as specified in Section 8(b) of Regulation T.

No transactions are permissible in unrestricted accounts which would cause such accounts to become restricted accounts unless the creditor demands additional margin in an amount

sufficient to make such accounts unrestricted accounts.

A creditor shall not permit a customer to make in a restricted account any transaction which in combination with any other transactions made on the same day and together with demands for additional margin in connection therewith, results in any increase of the excess of the adjusted debit of the account over the maximum loan value of the securities in the account or results in any net withdrawal of cash and/or securities. It is provided, however, that a creditor may permit a customer to make any transaction or combination of transactions which causes the account to become an unrestricted account and that any substitution of securities consisting of a sale of securities in the account and the purchase of other securities if completed within a period of two successive business days may be considered as a single transaction occurring on the day on which the purchase occurs.

As a general rule the creditor is required to demand the required amount of margin and shall receive same before the expiration of three full business days from the date of the purchase or other transaction for which such margin is required. Margin required shall be considered as having been received within the prescribed three business days under these conditions:

- (1) If the creditor in good faith accepts any check or draft drawn on a bank which in the ordinary course of business is payable on presentation or any order on a savings account with pass book attached
- (2) If the creditor in good faith ships securities with draft attached
- (3) If the creditor receives payment of any amount in foreign currency capable of being converted without restriction into United States currency

(4) In the case of any special account which grows out of regular correspondent relationships between a creditor and a customer who is not located in the same city and who is a member, broker or dealer, payment of margin in the form of securities shall be deemed to have been received at such time as the creditor receives and accepts in good faith a telegram or letter from the customer stating that such securities have been shipped to the creditor.

In connection with the acceptance of checks or drafts or securities shipped, draft attached, if such check, draft, order or sight draft is not paid on presentation, the creditor shall before the expiration of three full business days from receipt of notice of such non-payment obtain actual payment or cancel the sale, resell the securities for account of the customer, or obtain additional securities having a loan value sufficient to provide the margin needed.

**Extension or Maintenance of Credit Without Collateral or on Collateral Other Than Exempted or Registered Securities**

The following is quoted from Section 5 of Regulation T:

"(a) General rule.—Under the provisions of subsection (c) of section 7 of the Securities Exchange Act of 1934, it is unlawful for any member of a national securities exchange or any broker or dealer who transacts a business in securities through the medium of any such member, directly or indirectly to extend or maintain credit or arrange for the extension or maintenance of credit to or for any customer without collateral or on any collateral other than exempted and/or registered securities except as expressly permitted by this regulation.

(b) Credit not for purchasing or carrying securities.—In a special account recorded separately, a creditor may, notwithstanding any other provision of this

regulation, extend credit to any customer, without collateral or on any collateral other than nonexempted registered securities, for any bona fide commercial, industrial, or other purpose except the purpose of purchasing or carrying securities or of evading or circumventing the provisions of this regulation.

(c) Additional collateral for maintenance of existing credits.—As security for the maintenance of credits initially extended prior to October 1, 1934, or extended in conformity with this regulation, for the purpose of purchasing or carrying securities, a creditor may until July 1, 1937, accept or retain as collateral, in addition to exempted securities and registered securities, any collateral whatsoever: Provided, That collateral other than exempted or registered securities (1) shall not be the basis of any additional extension of credit, and (2) shall be given no value in determining the maximum loan value of the securities in the account."

**Cash Transactions**

A bona fide cash transaction is one in which a creditor sells a security to a customer or purchases securities for a customer upon an agreement made in good faith and not to evade or circumvent the provisions of the act, that the customer will promptly make full cash payment for securities so sold or purchased. Cash transactions must be recorded in special accounts and not in any other account of the customer. Extension of credit on cash transactions is limited to a period not exceeding seven days. The seven day period commences to run when the broker pays for the security without having received payment from his customer.

No credit may be extended on unregistered, nonexempt securities unless such transactions are made on a cash basis and recorded in a special cash account for the limited periods and subject to the conditions of Section 6 of Regulation T.



### Accounts Existing on October 1, 1934

*Old Accounts:* In a special bulletin issued in response to queries for an interpretation of "old account" the Federal Reserve Board defines same as follows:

"1. The account that may be designated as an old account is the account as it stood at the opening of business on October 1, 1934, with such changes as could have been permitted in such account under section 7(a) of the regulation if the account had been designated as an old account at the beginning of business on October 1, 1934.

2. The creditor may designate such account as an old account at any time prior to November 15, 1934, and may permit transactions in the account pending such designation; but there may not be included in any account designated as an old account any transaction which could not have been made in the account if it had been designated as an old account at the beginning of business on October 1, 1934, and any transaction which cannot be so included must be made in or transferred to a new account.

3. After an account has been designated as an old account the regulation permits the withdrawal of cash or securities only if the account is an unrestricted account on October 15 and if the withdrawal does not make the account a restricted account.

4. If, between the opening of business on October 1, 1934, and the time of the designation of such account as an old account, there has been any withdrawal of money or securities from the account, such account cannot be designated as an old account unless it is an unrestricted account on October 15 or on the date of such designation, whichever is the later, or unless the cash and/or securities withdrawn from the account are replaced before the account is designated as an old account.

5. If, between the opening of business on October 1, 1934, and the time of the designation of such account as an old account, there has been any additional purchase of securities in the account or any substitution consisting of a sale and replacement purchase which results in an

increase in the adjusted debit balance of the account, the securities purchased and any debit for the cost thereof cannot be included in the account designated as an old account but may be transferred to a new account.

6. Even though transactions have been made in an account subsequent to September 30, 1934, the creditor may for convenience designate the account exactly as it existed at the beginning of business on October 1, 1934, as an old account and may transfer all transactions made subsequent to September 30, 1934, to a new account, to which also may be transferred any money and/or securities lawfully withdrawn from the old account in accordance with section 7(a) of the regulation."

*New Accounts:* The regulation provides that a creditor may at any time permit a customer having an old account, recorded separately as provided, to establish and maintain one or more new accounts which shall be subject to the applicable provisions of the regulation. The regulation also provides that any time prior to July 1, 1937, a creditor may permit or require customers to consolidate old accounts with any of their new accounts provided that all such old accounts shall be consolidated, liquidated or otherwise disposed of on or before July 1, 1937.

It appears that there is no necessity for a creditor to designate an existing account at the opening of business on October 1, 1934, as an old account, if the margin therein at that date is sufficient to meet the requirements of the regulation. In other words, if the account is in the condition stated above, transactions on October 1, 1934, or subsequent thereto, may be reflected in the existing account at the opening of business on October 1, 1934, and the creditor is not required to open another account for the customer.

However, if the margin in an ac-

count at the opening of business on October 1, 1934, does not meet the requirements of the regulation it should, for the benefit of the customer, be designated as an old account and must be subsequently liquidated, consolidated with a new account, or otherwise disposed of on or before July 1, 1937.

### **Borrowing and Lending Securities**

The deposit of cash in connection with the borrowing and lending of securities is not considered to be an extension or maintenance of credit within the meaning of the regulation.

*General:* Salient features to remember in connection with Regulation T are as follows.

The act fixes the initial credit only and does not restrict a creditor in respect to carrying securities impaired by market conditions or increased by charges for interest, commission, etc.

Creditors, as defined by the act, are "brokers and dealers who are members of registered exchanges or who transact their business in securities through the medium of such exchange members."

Exempted securities include "securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States; such securities issued or guaranteed by corporations in which the United States has a direct or indirect interest as shall be designated for exemption by the Secretary of the Treasury as necessary or appropriate in the public interest or for the protection of investors; securities which are direct obligations of or obligations guaranteed as to principal or interest by a State or any political subdivision thereof or any agency or instrumentality of a State or any municipal corporate instrumentality of one or more States; and such other

securities as the Securities and Exchange Commission may, by such rules and regulations as it deems necessary or appropriate in the public interest or for the protection of investors, either unconditionally or upon specified terms and conditions or for stated periods, exempt from the operation of any one or more provisions of Sections 7 and/or 8(a) of the Securities Exchange Act of 1934, which by their terms do not apply to an 'exempted security' or to 'exempted securities.'"

The regulation defines registered securities as meaning "any security which is registered on a national securities exchange, or which, in consequence of its having unlisted trading privileges on a national securities exchange, must, under the provisions of Section 12(f) of the Securities Exchange Act of 1934 be considered a security registered on a national securities exchange."

An unrestricted account is one that is sufficiently margined, that is, one in which the adjusted debit balance is no greater than the maximum loan value of the securities in such account.

A restricted account is one in which the adjusted debit balance exceeds the maximum loan value of the securities in such account.

An account, which at the opening of business on any day, is unrestricted, may be considered an unrestricted account during that day. It is possible that an account which is classed as restricted at the opening of business may become unrestricted during the same day and if so, it may be considered an unrestricted account for the balance of that day.

In computing the lowest market price at which a security has been sold, the regulation provides "that until July 1, 1936, for the purpose of this regula-

*(Continued on page 20)*

## Notes on the Adjustment of the Balance Sheet to Present-Day Business Conditions\*

By WALTER A. STAUB

The revolutionary changes in business and financial conditions caused by the unprecedented depression through which we have been passing make it more important than ever that everyone having any responsibility for either the preparation or the certification of balance sheets of business concerns give consideration to the effect on the various items appearing therein of present-day conditions.

*Cash:* Formerly this was regarded as the one certain item on the balance sheet. The experiences of the past several years, however, have sometimes caused one to wonder whether it isn't the most uncertain item on the balance sheet. Among such conditions, which have become of importance only since the depression became acute are:

- (1) Closing of thousands of banks during the depression;
- (2) Considerable number of banks operating on restricted basis after the resumption of banking following the general closing of March, 1933;
- (3) Banks permitted to value their security holdings on bases other than actual market in determining solvency or permissibility of continuing in business;
- (4) Monetary policy of the federal government with continued depreciation of dollar, thus putting premium on ownership of tangible things like merchandise or real estate rather than mere money (including bank deposits) or obligations payable in a specified number of dollars;
- (5) The restrictions on the withdrawal of funds on deposit in foreign countries.

The improvement in the banking situation has again restored confidence in

the solvency of banks which were permitted to reopen after last year's bank holiday, on an unrestricted basis. Many business concerns have been left with deposits with—or claims against—closed banks.

Such balances in closed banks are obviously no longer "cash" in the accepted sense of that term. They should therefore be excluded from the current assets section of the balance sheet and shown as non-current assets and, to the extent that information is available, should be written down to expected realizable value.

Foreign deposits, the withdrawal of which is restricted by law, should also be indicated and not merely merged in the general "cash" item in the balance sheet.

*Receivables—Notes and Accounts:* The effect of present business conditions is to make the possibility or probability of losses thereon greater than a few years ago. Consequently credits must be more carefully watched than ever, and past experience as to ratio of bad debt losses to amounts of sales or outstanding receivables cannot be blindly relied upon in determining reserves for bad debt losses or in determining whether or not the amounts of reserves accumulated by setting up currently a percentage of sales are adequate to provide for the probable losses on the receivables shown in the balance sheet of a given date.

*Inventories—Materials, Goods in Process, and Finished Product:* In the course of time the rule of "cost or mar-

\* Based on talks to the Washington and Rockford chapters of the National Association of Cost Accountants.

ket, whichever is lower," for which the public accounting profession consistently contended in season and out of season, and at a time when many business men did not agree with the rule, has become generally accepted by the banker, the manufacturer, the merchant and the taxing official. It is a rule of conservatism and safety rather than of logic. Logically, by the same token that inventories are written down to provide against potential losses not yet actually sustained but threatened by a fall of market prices below cost, it could be argued that inventories should be written up to recognize potential profits therein not yet actually realized but promised by a rise of market prices above cost. Long experience, however, has taught that the only course of safety is that of providing against threatened losses but of not counting chickens until they are actually hatched.

The time tested principle of "cost or market, whichever is lower," is on the whole still the best to follow. But question has from time to time been raised which cost is to be applied to the goods sold and which cost is to be applied to the goods remaining on hand. Shall it be "first in, first out;" or "last in, first out;" or "average of the beginning inventory cost plus subsequent purchase or production cost" (on a weighted average basis)?

This question has been receiving renewed consideration because it is of greatest importance in periods when a radical change in the price level occurs (whether up or down) as during the depression period. When the price movement is upward, as during the World War, the use of the "first in, first out" costing of sales tends to show large profits because of selling at mounting prices goods purchased at the lower price level, although if the con-

cern is to remain in business it must immediately replace the sold goods with others purchased at prevailing higher prices. The effect is that the valuation of the inventory is at the highest recent cost, and the profits shown on goods sold have to a large extent not been realized in the sense that they are available for distribution but they have had to be reinvested in large part in maintaining a stock of goods no larger in quantity than that previously carried for a much smaller investment. When the inevitable drop in the price level occurs, large losses on inventory values are shown in adjusting to "cost or market, whichever is lower." In 1920 many concerns showed inventory losses which offset to a considerable extent the large profits apparently earned during the war period. Similarly, large inventory losses due to the tremendous drop in prices during the present depression have in the case of many companies absorbed profits shown during the time that a high cost was being developed for the inventory.

The question has been raised whether, assuming a starting inventory at a low enough level so that prices would hardly drop below it excepting under catastrophic conditions, the use of the formula of "last in, first out" in costing goods sold would not result in a truer picture of actual profit. The argument can be made that there is a closer relation between the prices of goods last purchased and of the goods currently sold than between the earliest purchases of goods on hand and of the goods currently sold.

In the case of industries or concerns the inventories of which are ordinarily very large in relation to other assets—as, for example, the oil industry where large quantities of crude oil may be carried in stock continuously—the "last

in, first out" method of costing sales has a tendency to minimize the extremes of profits and losses. The profits shown in periods of rising prices would tend to be less than by using the formula of "first in, first out," and correspondingly in periods of falling prices such losses as might be shown in reducing inventories to lower market prices would not be as great as would otherwise have to be taken. It is to be noted that the formula of "cost or market, whichever is lower" would still govern the valuation of the inventory and would correct the tendency which might develop in a period of falling prices for the inventory to remain at a higher price level than the current prices at which sales would be costed.

The "last in, first out" formula is being given study by an inventory methods committee in one of the large industries of the country at the present time. Any method which will tend to minimize the profits shown in periods of rising prices which are not actually available for distribution, because of the need for retaining at least a material portion of such profits in the business as added working capital and thus subjecting it to a business hazard which becomes greater the higher the price level rises, is worthy of careful consideration.

If such a cost formula or method were generally adopted in an industry, it would be desirable to show as a memorandum on the balance sheet the current replacement market value for the inventory. This would assist in giving a full understanding of the situation to those extending credit to a given concern or those who wish to make an intelligent comparison of the financial position of various companies in the same industry whose inventories may be carried at

differing costs. Even under the present more general use of the "first in, first out" cost formula the supplementing of the valuation at which the inventory is carried in the balance sheet by a memorandum of the approximate replacement market value thereof would be informing.

The average cost method of carrying or valuing the inventory may be said to be intermediate between the "first in, first out" and "last in, first out" methods. It is probably less used now than was at one time the case, though it is still the method generally used in at least one of the major industries of the country.

An inventory method which has somewhat the same end in view as the "last in, first out" cost formula is the base stock method. It has the virtue of conservatism, both from a balance sheet point of view (assuming of course that the base price, which remains unchanged, is set sufficiently low at the inception of the use of the method) and from the point of view of the earnings shown during an era of rising prices. The leading exponent of this method in this country is the National Lead Company which has clearly explained the method in its annual reports. Another of the prominent industrials of the country, the International Harvester Company, used the method for a few years at the close of the World War period but discontinued when the United States Treasury refused to accept the method for income tax purposes. The refusal of the taxing authorities in both the United States and Great Britain to accept the base stock method for valuing inventories has probably discouraged a more general use of it by industrial companies.

One other point in the valuation of

inventories which requires especial consideration in the depression period is that only normal overhead should be included in inventory value, even though under present conditions with greatly reduced output the actual overhead ordinarily exceeds a normal rate of overhead.

*Investments:* The tremendous decline in security prices makes careful scrutiny of the figures at which investments are carried of especial importance. The rules to be followed are quite well established and may be summarized as follows:

- (1) Marketable securities—if quoted prices thereof are below cost, they should be either (a) written down, or (b) a reserve set up for the difference, or (c) a notation made of the quoted value on the balance sheet. "Quoted value" may, especially under present conditions, be a more exact term than "market value."
- (2) Not-readily-marketable investments—
  - (a) if no market value can be ascertained, they may be carried at cost, with that fact being clearly disclosed, or
  - (b) if the actual value is known to be considerably lower than cost, and not merely a temporary fluctuation, they should be written down to such value, or
  - (c) a notation made of the quoted value on the balance sheet.

*Plant and Other Fixed Property Accounts:* We may first remind ourselves of the accounting conventions which underlie property "values" as ordinarily stated in balance sheets of industrial concerns. They do not purport to represent present market value of the property, or to give any indication of what might be realized if the concern went into bankruptcy, or for other reasons had to liquidate, and its plant and other fixed properties were to be sold either at forced sale or after extended negotiations.

The underlying principle for the

stating of property items in the balance sheet is primarily that of accounting for the investment therein—that is, carrying such property at cost less allowances for depletion because of exhaustion through removal of the contents, as in the case of mines, oil wells, forests, etc., and for depreciation of property because of its use in the business and/or expiration in part of the expected useful life of the property—and only under special circumstances attempting to indicate the probable realizable value of the property or even what it would probably cost to replace it.

Exceptions to the foregoing general rule are, among others, such cases as, (a) when property no longer required for the operation of the business is to be disposed of as soon as possible, and it is segregated from the active plant property and written down to estimated realizable value, and (b) when it is desired to give effect in the books and financial statements to a marked change in price level or other factors which have caused present value to be substantially different from the undepreciated balance of the cost thereof. Such adjustments of acquisition cost less depreciation are usually based on an appraisal.

For example, a mining property bought in an undeveloped or even unexplored state may have proven to contain valuable mineral deposits and its present value consequently be far in excess of the relatively small amount paid for the property. Again, land may have greatly increased in value since its acquisition for the use of the business, though it should be observed that when such value is predicated on a use for a purpose which would necessitate the removal of the plant from such land, the prospective loss on build-



ings and equipment is an offset against the profit accrued on the land and only the net amount should be recognized in making any adjustment of the cost at which the plant has theretofore appeared on the books. During the decade intervening between the close of the World War and the stock market crash of 1929 adjustments of book values of plant property were principally upward, the revisions representing the excess of appraisal valuations (which valuations were most often based, in the case of buildings and equipment, on estimated replacement cost less depreciation) over the original cost less depreciation theretofore allowed for.

Following the catastrophic fall in the price level which occurred during the early years of the depression, the question was raised among both bankers and industrialists whether the values at which plant assets were being carried on the books of the corporations owning them should not be revised downward to accord with the new price level. From the views expressed on this question, it is evident that the cause of the question was not so much because high values in balance sheets might possibly mislead the readers, but rather the thought that reduced property values would justify lower depreciation allowances and consequently the income account would show a better net result than if depreciation allowances were continued at the high costs at which the plant assets had been acquired prior to the depression. This reason for revising the book values of plants naturally caused accountants to give careful consideration to the related question of whether shareholders might possibly be misled by statements of net income which were based on charging operations of the business with depre-

ciation allowances computed not on the original cost of property but only on the portion thereof based by the level to which such values fell in the depression period. The writer reached the conclusion, which it is believed also represented the general consensus of opinion among accountants, that in principle there was no objection to adjusting the plant accounts downwards, even though it did result in lower depreciation allowances thereafter, that it represented in effect a recapitalization or a reorganization of the financial status of the company in the light of radically changed business conditions, and that one could not expect a business to recover through its operations depreciation allowances on a higher basis than the current price level to which selling prices of the products of the business are related. Among the discussions which appeared in print on this subject was a presentation by the writer under the title of "The Disposition in the Accounts of Abnormal Losses" at a meeting of the New York State Society of Certified Public Accountants, which formed the basis of an article appearing in the January, 1933, issue of the quarterly bulletin of the Society.

This discussion of the writing down of plant values was most active during 1931 and 1932 and at the end of 1931, particularly, quite a number of large companies made important adjustments of this character in their accounts. Those adjustments which were made in 1931 and 1932 were predicated on the assumption that the price level which had obtained over a decade following the close of the war had been abnormal and that, although there might be some rise in the level to which prices had fallen during the depression, experiences in periods following other wars

indicated that we had at last reached a more nearly normal price level. With the advent of the Roosevelt administration, however, and the talk of inflation and the administration's effort to force the price level upward, including the devaluation of the dollar, and the effects which may still be realized therefrom, it obviously became inadvisable to continue the adjustment of property values because of the fall in the price level. Hence, the consideration of the subject at this particular time is largely academic. It has been touched on, however, to indicate how changing business conditions do exert an influence on the balance sheet and why at the present time the balance sheets of a number of large and prominent business corporations do not have their property accounts included in the balance sheet on the conventional basis of cost less depreciation.

It is always important to make certain that expenditures charged to property accounts do in fact represent additions to or improvement of the property and that in no sense could they be considered maintenance or operating expenses, and, similarly, that adequate allowances are being made currently for depletion and depreciation. In times of financial stress and strain and greatly reduced industrial output with correspondingly unfavorable reaction on the operating results, it is especially important to see that charges to the property account are legitimate and that depletion and depreciation allowances are not being reduced merely to better the operating showing.

In view of greatly reduced output during the depression, a number of manufacturing concerns have reduced their depreciation allowances on the theory that a lesser use of the plant

caused a lesser depreciation. Under some circumstances this may be the case, though it is not to be overlooked that the allowances for depreciation made on straight line basis are frequently at rates which in fact make some allowance for what may be called normal obsolescence (as distinguished from extraordinary obsolescence) in addition to provision for physical exhaustion. In other words, the estimates of the probable useful life of plant assets are based not merely on either the minimum or maximum expected physical life but also give some consideration to probable retirement or displacement at an earlier date because of developments in the art or because of maintenance and repair costs becoming too high in the later years of the physical life of machinery. Experience indicates that this obsolescence factor has some relation to time, though there are of course other elements involved than that. This is an argument for continuing depreciation allowances on the same basis (where the straight line method is used) through a period of reduced production as during the time when the plant is used to reasonably full capacity. In any event, it is desirable to disclose clearly in the financial statements any substantial modification of the depreciation allowances because of reduced output.

A development of the last several years, though presumably not caused by the depression, which should have at least passing mention, is the question of retirement reserve versus depreciation reserve in the case of public utilities. For more than a decade, public utility commissions in many states have permitted corporations subject to their jurisdiction to charge operations with allowances for plant retirements rather than with allowances for depreciation

computed on the straight line (or analogous) method. At one time many public utility corporations made no depreciation allowances, or even so-called retirement allowances—just as prior to the incidence of income and war profits taxes, many industrial corporations either made no depreciation allowances or computed them on an inadequate basis—but in more recent years probably a majority of public utility corporations have been making allowances on the so-called retirement basis. Some public utility corporations, however, have continuously used the straight line basis, the most prominent example being the American Telephone & Telegraph Company and the operating companies of the Bell Telephone system. Over a period of some years, the Interstate Commerce Commission made a careful study of the subject of depreciation accounting as contrasted with retirement accounting and in 1926 made a preliminary report and order and on July 28, 1931, another report and a final order, deciding in favor of depreciation accounting. The Public Utility Commission of New York State has also had the subject under consideration and its new classification of accounts for public utilities in New York has prescribed straight line depreciation. Some of the important utilities of the state have registered vigorous objection and the subject is still under discussion.

A generation ago, when many of our large industrials came into being as the result of consolidations of groups of independent companies, it was the practice to set up one property account at inception of the company which was a hodgepodge of land, buildings, machinery, and other tangible plant assets, patents, trade brands, good will, and other intangible assets. Not infre-

quently the major portion—sometimes the entire amount—of the par value of the common stock issued at organization represented only intangibles for which the then favorite expression was "water."

Since that time much progress has been made in developing better plant accounting and, with the stimulus of the war profits and income taxes, of setting up adequate allowances for depletion and depreciation of tangible property and of such intangible property as may have a limited life. The best practice today in dealing with property accounts, is to segregate (1) tangible from (2) intangible property and in turn to segregate tangible property into (a) depreciable and (b) non-depreciable. Such a segregation, after applying to the respective divisions the allowances for depletion or depreciation applicable thereto, indicates the residual investment in each class of property and also gives information which permits of seeing, at least in a general way, the relation between the depreciable property carried in the balance sheet and the depreciation allowances charged in the income statement.

In the case of some companies it may not be feasible for a lack of complete information to make the segregation above indicated for balance sheet purposes, but at least the description of the aggregate property account as carried in the balance sheet can, and should, indicate that it includes both tangible and intangible property.

*Foreign Exchange:* For a long time, the principal aspect of this item which needed to be considered in stating the balance sheets of American corporations with foreign interests, whether consisting of direct branches or of foreign operating subsidiaries, was the

adjustment to give effect to the extent to which numerous foreign currencies were below par in their relation to United States currency. With the devaluation of the United States dollar, however, this situation has radically changed and, even in the case of a country like Germany which has almost no gold backing for its currency, the dollar is at a very large discount as compared with its former parity with the mark. Consequently, the adjustments which must now be made in the light of foreign exchange rates obtaining at the date of the balance sheet are quite different from those which formerly needed to be made. In some cases, the adjustments involve the factor of unrealized profit arising from the foreign exchange situation.

*Prepaid Expenses and Other Deferred Charges:* In general, no material change has been caused in this group of items by depression conditions. The same principles are to be followed as heretofore. In any event, the primary importance of this group of nominal assets in the balance sheet is their effect on subsequent income accounts or statements of operation rather than as an indication of financial position.

*Liabilities—Funded and Current:* Apparently, the depression has introduced no new factors which require any substantial change in past practice or any modification of the liability shown on the books of a corporation, for obligations stated in a definite number of dollars, especially since the enactment of federal legislation invalidating the gold clause in bonds, mortgages or similar fiscal contracts. Should that legislation be held unconstitutional, the situation would of course be very much changed and would require complete reconsideration.

*Liabilities—Contingent:* In times of financial stress and strain, and especially when such stress and strain bear down hard on a given corporation, especial care needs to be given to ascertaining all contingent liabilities. These sometimes develop in quite unexpected forms, and as reference thereto may not appear in the financial accounts of the company, their ascertainment is at times extremely difficult.

*Capital:* Recent legislation in a number of states has caused renewed consideration to be given to the proper accounting treatment of capital stock, particularly that having no par value, treasury stock, capital surplus and earned surplus. Such legislation has, in some cases, imposed additional restrictions, either upon the acquisition of the company's own shares or upon the payment of dividends because of the impounding of surplus resulting from such acquisition of its own shares. The new business corporation act, which became a law in Illinois in July, 1933, is an interesting example of such legislation. It was evidently enacted after careful consideration of both legal and accounting phases of the financial structure of corporations. Apparently, under that law treasury stock may be acquired only if earned surplus is available for that purpose, and upon such acquisition the earned surplus is no longer available for dividends to the extent of the cost of such stock, at least as long as such cost is not recouped by a resale thereof.

In order to show more clearly the restrictive effect of treasury stock on the surplus, and to recognize more fully the requirement in most, if not all, states, that the capital stock is not reduced until treasury stock has been

(Continued on page 17)

## Federal Tax Handbook, 1934-35

It is expected that the 1934-35 edition of Colonel Montgomery's **FEDERAL TAX HANDBOOK** will be off the press and ready for distribution soon after this issue of the **L. R. B. & M. JOURNAL** reaches our readers.

The following excerpts from the circular issued by The Ronald Press Company, publishers of the book, indicates the scope of the new edition:

The tax situation has changed more in the twelve months just ending than in any corresponding period on record. Certain provisions of the new law not only alter fundamentally the procedure you have been following, but are totally unlike any provisions in prior laws. . . .

In addition, the past year has been an important one for the Treasury rulings, Tax Board and court decisions handed down. In vital respects, the Treasury's position has not only stiffened notably, but upset long-established interpretations. Court decisions have been radically different, not merely in their results, but in the spirit in which arrived at.

Mr. Montgomery's counsel in this **FEDERAL TAX HANDBOOK 1934-35** gives as always the tax-saving help and protection you need. Out of his years of experience with tax laws, he takes the responsibility of interpreting the law into plain, positive recommendations of procedure. He anticipates the probabilities as to position the Treasury will take on the new pro-

visions. Points that may cause trouble are discussed frankly, with his personal comments and suggestions. You have a direct answer to any likely question about income, gift, estate, capital stock, and excess profits taxes. . . .

Recent investigations and announcements from Washington have unfortunately tended to create among many taxpayers a psychology of fear. Loosely flung-around charges and threats have caused some taxpayers to jump at the conclusion that the conduct of their business affairs in such a way as to minimize tax liability is no longer legitimate. It should not be forgotten that taxpayers still have the legal right so to conduct their business that the minimum of tax liability as well as other expenses will result. The courts have held that a taxpayer is not bound to choose the pattern which will best pay the Treasury; there is no patriotic duty to increase one's taxes. This book shows what taxpayers may, and what they may not, do in order to pay not more than the legitimate amount of tax.

We strongly urge all the members of our organization to become acquainted with the changes in federal taxes as a result of the passing of the 1934 Revenue Act, as well as recent court decisions, rulings, etc. This may be effectively accomplished by a careful perusal of the new edition of the **FEDERAL TAX HANDBOOK**.

### Adjustment of the Balance Sheet to Present Conditions

*(Continued from page 16)*

retired pursuant to prescribed statutory procedure, there is a marked trend away from the old-time accounting practice of deducting par or stated value of treasury stock from the gross capital stock outstanding and to apply any difference between cost and par or stated value to the capital surplus

and/or earned surplus accounts. A practice which has been followed in a number of published balance sheets is to deduct the cost of treasury stock from the aggregate of capital stock and surplus or, in those cases where treasury stock is carried on the asset side of the balance sheet, to note in the description of the surplus item on the balance sheet the restriction on the availability thereof for dividends to

*(Continued on page 18)*

## Auditing Theory and Practice

The fifth edition of Colonel Montgomery's **AUDITING THEORY AND PRACTICE** is on the press and will be released shortly by the publishers, The Ronald Press Company.

In their advance notices, the publishers point out that the book has been entirely rewritten to meet new-day requirements, including:

The new public viewpoint on the auditor's word and responsibilities;

New practices and new standards that have developed in doing business;

New techniques in accounting;

New governmental demands as reflected in closer regulation and in the changing tax structure.

And that the new edition offers timely, practical and authentic advice on what constitutes the best course under these changed conditions.

The publishers further suggest its usefulness as a guide at every stage in making an audit or investigation of any scope, and for any purpose, and as a source of counsel in knowing what to look for, and where, how much to do, and how to distinguish the vital from the incidental.

It is stressed that since publication of the 4th edition, in 1927, there have been more

far-reaching changes in business and finance than in any similar length of time in the world's history, and that the whole course of the auditor's practice has changed profoundly in his viewpoint, in his methods, and in conditions of his work.

Colonel Montgomery's viewpoint throughout the book is expressed in the following quotation:

There must be some direct connection between good business practice and good accounting practice. It is absurd to claim that any business or any industry as a whole is subordinate to accounting methods. If business practices are bad and accounting methods are good, the former must yield; but if business practices are good, accounting methods must conform to them.

It is presumed that every member of our organization will make it a point to study carefully the latest developments outlined in the new edition of **AUDITING**. This is especially important because we are on the eve of the season when so many annual audits are to be made.

### Adjustment of the Balance Sheet to Present Conditions

*(Continued from page 17)*

the extent of the cost of the treasury stock.

The principle enunciated by accountants years ago, and increasingly recognized in practice as the years have gone on, that a company's own securities, whether bonds or capital stock, but especially so in the case of the latter, should not be included in the investment item which may appear among the company's assets in its balance

sheet without full disclosure of the fact, has now become well established.

This point has become of increased importance during the depression because so many corporations have bought in their own shares or bonds. By the action of the New York Stock Exchange in a controversy with a large corporation, the securities of which are listed on the Exchange, it has shown emphatically that it will not tolerate failure to disclose the inclusion of treasury stock among the investment assets of listed companies the inclusion of dividends thereon in the income accounts published by such companies.



## The L. R. B. & M. Journal

Published by Lybrand, Ross Bros. & Montgomery, for free distribution to members and employees of the firm.

The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvement; to encourage and maintain a proper spirit of cooperation and interest, and to help in the solution of common problems.

### PARTNERS

WILLIAM M. LYBRAND	New York	HERMON F. BELL	New York
T. EDWARD ROSS	Philadelphia	GEORGE R. DRABENSTADT	Philadelphia
ROBERT H. MONTGOMERY	New York	A. KARL FISCHER	Philadelphia
JOSEPH M. PUGH	Philadelphia	WALTER B. GIBSON	Los Angeles
WALTER A. STAUB	New York	A. CHARLES GUY	Cincinnati
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MASSACHUSETTS			
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EUROPE			
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FRANCIS J. H. O'DEA	Berlin	J. F. STUART ARTHUR	Dallas
VICTOR L. NORRIS	London		
LEONARD C. DAVID	Paris		

### Two New Partners

At the recent annual firm meeting Mr. Frederick S. Metzler and Mr. Robert E. Warren were admitted to membership in our firm. In both instances this was a well merited recognition of long, able and devoted service to the firm. Mr. Metzler will continue at the Philadelphia office and Mr. Warren will be our resident partner at the Cleveland office.

Mr. Metzler was born in Philadelphia in 1893, and attended the schools of that city. Thereafter he entered the office of the Auditor of Passenger Traffic of the Philadelphia & Reading

Railway Company and later was employed as assistant to the Trust and Title officer of the Manayunk Trust Company. While thus employed he took a course at the Evening School of Commerce and Accounts in Philadelphia.

He entered our Philadelphia office in April, 1917, and has been there continuously since, excepting from May, 1918, to August, 1919, when he was in the 315th Infantry, 79th Division, during the World War. After his return from service overseas he rejoined the staff of the Philadelphia office.

In 1925 Mr. Metzler received a Pennsylvania C. P. A. degree by ex-

amination. He is a member of the Pennsylvania Institute of Certified Public Accountants.

In 1922 Mr. Metzler married Miss Mildred R. Redman, who was employed in our Philadelphia office. They have two daughters and one son.

Mr. Warren was graduated from Ohio Wesleyan University in 1915 with an A.B. degree. Following two years of accounting and office work, he entered the Army and was a second lieutenant in the air service during the war.

He entered the public accounting field in 1919, and in 1923 received a C. P. A. certificate by examination in Ohio. He entered our Cleveland office in 1923 and for some years past has been in charge of that office as manager.

Mr. Warren has served as president of the Cleveland Chapter of The Ohio Society of Certified Public Accountants and as vice president of that Society. He is a member of the American Institute of Accountants. Articles by Mr. Warren have appeared in the JOURNAL on different occasions.

### Transfers of Partners

Mr. Donald M. Russell, who has been a resident partner at our Philadelphia office for the past five years, will hereafter be located at our Detroit office as our resident partner in that city. Mr. Yockey will continue as manager at the Detroit office.

Mr. Walter L. Schaffer, who has been the resident partner at our Baltimore office for five years past, will hereafter be located at our New York office as one of the resident partners in that city. Mr. A. H. Dewdney will be the manager in charge at our Baltimore office.

### Regulation T Under the Securities Exchange Act

*(Continued from page 8)*

tion, the lowest price at which a security has sold on or after July 1, 1933, but prior to the first day of the current month, shall be considered as the lowest market price of such security, during the preceding thirty-six months; and Provided, That the lowest market price which could be used under the provisions of this regulation during any calendar month may be used during the first seven calendar days of the succeeding calendar month."

After July, 1936, it becomes unnecessary to go back as far as July 1, 1933, but the lowest price during the preceding 36 calendar months must be used, except that the low prices which could be used during July, 1936, may, if the creditor so desires, be used during the first seven calendar days of August, 1936.

If, for example, a transaction is made on August 20, 1936, the period for determining the low price of the security would be from August 1, 1933, to July 31, 1936, inclusive.

The foregoing article is intended to embrace those features of Regulation T, about which discussion has largely centered. Many requests for interpretations of various features of the regulation are before the Federal Reserve Board for consideration and replies thereto are embodied in bulletins issued at frequent intervals by the board. As the contents of the bulletins are digested by those interested therein, a more definite understanding of Regulation T and its requirements is becoming prevalent.

L. W. Fageant of our New York office recently received the C.P.A. degree from the State of New York.

## Budgeting

Mr. Prior Sinclair of our firm is the author of a new work on BUDGETING, which has just been published by The Ronald Press Company. The aim and scope of the book are well expressed in the opening paragraphs of the preface, which read as follows:

The development of effective budgeting has been a signal aid in the business accomplishments of the past decade. The use of budgeting methods was greatly extended in prosperous periods and has stood business in good stead during the following time of stress. Undoubtedly those businesses which today are operating in harmony with methods of budgetary control are best prepared to meet the trials brought by the changes in the velocity of business. Today, budgeting, in its completeness, effectiveness and refinement of method, is advanced far beyond the concept of but a few years ago. Budgeting is now recognized as a wholly separate business function; it is closely allied with accounting and supplies another worthy instrument for the use of management.

Budgeting principles permit of wide application. The purpose of this book is to give an organized presentation of

budgeting principles and practice as the information heretofore published on the subject has been scattered and fragmentary.

A major aim of this book is comprehensiveness. Thus it treats budgeting in its full scope, not merely as a matter of mechanical routine or as a phase of accounting procedure, but more broadly as a plan of practical business management. Insofar as the limits of space permit, the numerous aspects of the subject have been presented with the purpose of bringing to the user of the book not only a knowledge of budgeting technique, but also an insight into the laws of business organization and management, which knowledge is essential for the preparation of a practical, effective and realizable budget.

The practicability of the subject matter of this book has been an aim coordinate with comprehensiveness. No method or plan in the work is theoretical; each is derived from actual practice. The methods presented are in everyday use with gratifying results to the users.

The book reflects Mr. Sinclair's long and broad experience in the field of budgeting and it is commended to the members of our staff for study.

## Notes

Members of our firm have been appointed to serve on committees of the American Institute of Accountants, as follows:

- Mr. Ross, Executive Committee (elected at annual meeting in Chicago in October);
- Colonel Montgomery, Special Committee on Terminology;
- Mr. Staub: Special Committee on Cooperation with Stock Exchanges; Special Committee on Cooperation with Other Organizations; Special Committee on Inventories;
- Mr. Hood, Special Committee on Cooperation with Securities and Exchange Commission;
- Mr. Sweet: Committee on Meetings (Chairman); Special Committee on Federal Corporation Law;
- Mr. Sinclair, Special Committee on Accounting Procedure;
- Mr. Perry, Special Committee on Cooperation with Bankers.

Mr. Donald M. Russell spoke before the Baltimore Chapter of the National Association of Cost Accountants on September 18, 1934, on the subject of depreciation and the attitude of the Treasury Department concerning depreciation deductions as set forth in Treasury Decision 4422.

Among the appointments as officers and to various committees of the Pennsylvania Institute of Certified Public Accountants which were announced for the ensuing year in the September-October, 1934, issue of the *Pennsylvania Certified Public Accountant*, we noted the appointments of members of our firm and of the staff as follows:

- Treasurer, Donald M. Russell;
- Vice-Chairman, Philadelphia Chapter, A. Karl Fischer;

- Member, Executive Committee, Pittsburgh Chapter, Harold R. Hersperger;
- Chairman, Committee on Accounting Terminology and Review of Published Financial Reports, John Hood, Jr.;
- Chairman, Committee on Cooperation with Bankers, A. Karl Fischer;
- Chairman, Committee on Legislation, T. Edward Ross;
- Chairman, Committee on Pensions and Group Life and Sick Benefit Insurance, George R. Drabenstadt.

On Thursday, October 18, 1934, Mr. Staub addressed the Rockford Chapter of the National Association of Cost Accountants on the subject, "Adjusting the Balance Sheet to Present Day Conditions." On the following day he addressed the noon-day meeting of the Rotary Club in Rockford on "Problems in Industrial Taxation."

An Associated Press dispatch from Oakland, California, dated September 27, 1934, related that "A big airliner and a dazzling meteor flashed through the skies dangerously close to each other east of here early this morning, giving the occupants of the plane a thrill of a lifetime."

Among the passengers in the plane was William Scott of the staff of our New York office. He was on his way to the Pacific Coast to carry out an engagement in which several of our offices were collaborating.

Mr. Scott has returned safely to New York none the worse for his experience, which he states was exciting while it lasted. This is probably just another way the west coast has of saluting visitors from the east.

## Firm Golf Tournament

The following were the results of the golf matches held in connection with the annual meeting at Seaview Golf Club, Absecon, N. J. Under the rules, no contestant was allowed to win more than one prize.

*Low Net, two days*—winner of the cup:  
Major A. G. Moss (84-12 and 82-12) 142  
J. J. Pugh, second, with 143  
A. W. Ambler, third, with 144

*Low Gross, two days:*  
N. J. Lenhart (80 and 84).....164  
Major A. G. Moss, second, with 166  
J. M. Haynes, third, with 171

*Low Net, First Day:*  
H. R. Campbell (91-20)..... 71

*Low Gross, First Day:*  
J. M. Haynes..... 85  
(Lenhart, 80; Moss, 84)

*Kickers' Handicap, First Day:*  
Tie between: A. C. Guy; F. S. Metzler; P. Sinclair

*Low Net, Second Day:*  
J. J. Pugh (86-16)..... 70

*Low Gross, Second Day:*  
T. E. Ross..... 85  
(Moss, 82; Lenhart, 84)

*Kickers' Handicap, Second Day:*  
Tie between: M. J. Boedeker; H. C. Hawes; J. Hood, Jr.; W. F. Marsh;  
(J. J. Pugh was in this tie, but could not take two prizes).

## Philadelphia Office Golf Tournament

The Philadelphia District was the scene of three important golf tournaments this year, namely, the National Open Championship at Merion Cricket Club, the National Women's Championship at Whitemarsh Valley Country Club, and the Bunkers Club Hood Cup Tournament at Tavistock, Had-donfield, N. J. While the first two mentioned have received national recognition by radio broadcast and through the press, for some reason the Bunkers Tournament has not heretofore received the notice which it deserves.

The annual contest for the Hood Cup is a handicap event. This year the fans and contestants were greatly pleased that the winner proved to be the donor, Mr. John Hood, Jr.

The Tavistock course was found to

furnish a real test, only four contestants having scores below 100, while the highest was 194.

The winners of the other prizes were as follows:

*Low Gross:* T. E. Ross; Runner-up, J. J. Pugh  
*Kickers' Handicap:* W. R. Seibert  
*Putting Contest:* H. C. Hulse.

The players were the guests of Mr. Hood at luncheon.

After the tournament the contestants were divided into four flights of eight each, and handicap matches were played off during the summer. The following were the winners:

*1st eight:* H. Y. Siebold  
*2nd eight:* F. R. Bloomburg  
*3rd eight:* C. A. Anderson  
*4th eight:* M. McMullan, Jr.

## New York Office Bowling Team Meets Brown Brothers Harriman & Company Team

Your correspondent reports that on the night of November 23, 1934, between the hours of 7 p. m. and "ad finem" he witnessed what may be regarded as the most catastrophic event in the progress of the firm. Those who wish to avoid being reduced to a lugubrious frame of mind should not read on, for it is a doleful tale. If, however, your constitution can withstand a lachrymal inundation, carry on and console yourself with the thought that the results hereinafter set forth sadly affected the psychological and economic status, etc., of the participants, bystanders, satellites, well-wishers and others having a direct or contingent interest.

At the time aforesaid, certain members of the staff, who, believing themselves capable of executing feats of strength, organized two teams and accepted a challenge from the firm of Brown Brothers Harriman & Company in a game of bowls (no, not quoits, though it might be more within the realm of the defendants' capabilities), the game which statutes forbade during the reigns of Edward III and Richard II, and of which it has been written "Common bowling alleys are privy moths that eat up the credit of many idle citizens; whose gains at home are not able to weigh down their losses abroad; whose shops are so far from maintaining their play, that their wives and children cry out for bread

and go to bed supperless often in the year."

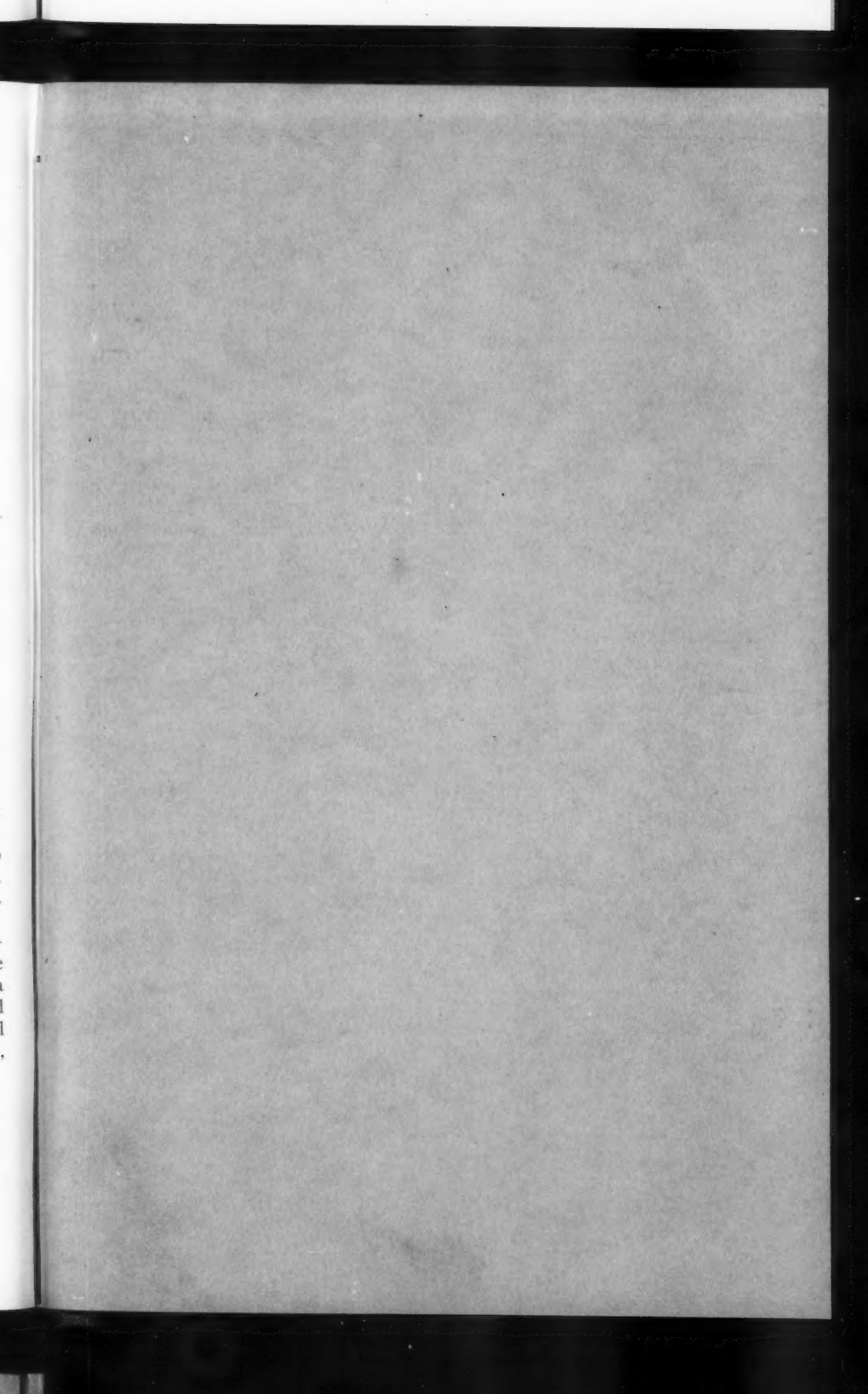
In adjudication of the truth, it should be noted that our representatives constituted all the brawn, beef, talent, grace and ossiferous material that could be mustered from these parts, whereas it is understood that their opponents were selected at random from the ranks without regard to qualifications. In spite of the overwhelming odds, the opponents apparently without effort administered a decisive blow to the "exponents." A final tally showed that an excess of 71 pins had been displaced from their perpendicular position on the alley and lodged at the tired groaning feet of the pin-boy.

It should be noted, however, that as the reports go, extenuating circumstances contributed to the defeat of the L. R. B. & M. team. Your correspondent interviewed individual members of the teams and was told that the alleys were not properly constructed, the balls lop-sided and unable to understand English, the chalk white, the atmosphere warm, etc., and so on, and so on, and so on.

In spite of the difficulties encountered and the handicap under which the L. R. B. & M. teams labored, it was a jolly evening and, as Browning said (or was it Ruppert?), "They filled their bumpers to the brim and drank, for ne'er a merrier time was had."

A. W. A.





# Lybrand, Ross Bros. & Montgomery

## Offices

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